



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ECONOMICS, MARKETING AND ENTREPRENEURSHIP

EXAMINATION PAPER

COURSE CODE : CEC 121
COURSE TITLE : PRINCIPLES OF MACROECONOMICS
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 1.2
DATE : 14 JUN 2024

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable calculators is allowed
3. Answer ALL questions Section A and any THREE in Section B.
4. Begin each question on a new page in section B.
5. The number of marks for each question or part question is shown in brackets []

Answer all questions in this Section.

Indicate whether the sentence or statement is true or false

[Total: 5 marks]

1. Social security payments that are paid by the government to households are an example of automatic stabilizers
2. Inflation refers to an increase in nominal GDP
3. Nominal GDP employs current prices to value output while real GDP employs constant base-year prices to value output.
4. If the government uses tax cuts to expand the economy, it would be using monetary policy
5. For an economy as a whole, income equals expenditure because the income of the seller must be equal to the expenditure of the buyer.

Select the appropriate answer Multiple Choice Questions

[Total: 20 Marks]

6. Gross Domestic Product can be measured as the sum of
 - A. Final goods and services, intermediate goods, transfer payments, and rent.
 - B. Consumption, investment, government purchases, and net exports.
 - C. Consumption, transfer payments, wages, and profits.
 - D. Net National Product, Gross National Product, and Disposable personal income.
 - E. Investment, wages, profits, and intermediate production
7. The Federal Reserve Bank can undertake which of the following policy actions to address the problem of inflation?
 - A. Decreasing the income tax rate
 - B. Decreasing the federal funds rate
 - C. Decreasing the money supply
 - D. Decreasing the required reserve ratio
 - E. Buying government bonds on the open market
8. Which of the following would most likely lead to a decrease in aggregate demand?
 - A. A decrease in taxes
 - B. A decrease in interest rates

- A. An increase in household savings
 - D. An increase in household consumption
 - E. An increase in business firms' purchases of capital equipment from retained earnings.
9. What is most likely to be increased by a policy of increased direct taxes and lower government spending?
- A. The balance of payments deficit.
 - B. The budget deficit.
 - C. The rate of inflation
 - D. The level of unemployment
10. An economy is experiencing a period of deflation. What must be happening?
- A. The average price level is falling.
 - B. The output of the economy is falling.
 - C. The rate of inflation is falling.
 - D. D The real value of money is falling
11. The initial impact of an increase in government spending is to shift
- A. Aggregate demand to the right.
 - B. aggregate demand to the left.
 - C. Aggregate supply to the right.
 - D. Aggregate supply to the left.
12. Demand -side unemployment is partly caused by:
- A. Imperfections in the labor market
 - B. Occupational and geographic immobility of factors
 - C. Demographic changes
 - D. lack of aggregate demand
13. Which statement about a rise in the general price level in a country is correct?
- A. It is likely to create economic winners and losers in the country.
 - B. It is unacceptable to modern governments.

- C. It means that no goods have fallen in price.
- D. It must make the average citizen poorer.

14. Which of the following would NOT cause a SHIFT in Aggregate Supply?

- A. The level of government spending
- B. The costs of the factors of production
- C. Incentives
- D. The structure of the economy

15. Which of the following is NOT true of the Federal Reserve?

- A. It serves as a lender of last resort for member banks.
- B. It supervises member banks.
- C. It provides check-clearing services.
- D. It issues debit cards.
- E. It controls the money supply

SECTION B [TOTAL: 75Marks]

QUESTION ONE

a) Fill in the missing figures in the table below using 2019 as the base year [12Marks]

Year	Units of output	Unit Price \$	GDP Price index	Inflation rate	Nominal GDP	Real GDP
2018	400	150				
2019	450	320				
2020	560	180				

b) Gross Domestic Product (GDP) is an adequate measure of the economic performance of a country. Discuss [13Marks]

QUESTION TWO

An open economy with a government sector is in equilibrium. Assume the following:

- Marginal propensity to save = 0.4
- Marginal propensity to tax = 0.2
- Marginal propensity to import = 0.2

Showing your method of working, calculate:

- (a) The value of the multiplier [5Marks]
- (b) By how much the equilibrium level of national income would fall, if Investment in the economy is reduced by \$60m. [5Marks]
- (c) Government expenditure represents one of the injections of expenditure. Explain with the aid of a diagram how an increase in government spending may have a multiplier effect on the economy. [9Marks]
- (d) Clearly distinguish between nominal GDP and real GDP. Why does this distinction matter? [6Marks]

QUESTION THREE

Zimbabwe's economy depends heavily on its mining and agricultural sectors. Following a decade of contraction from 1998 to 2008, the economy recorded real growth (GDP) of more than 10% per year in the period 2010-2013 before falling below 3% in the period 2014-2017, due to; poor harvest, low diamond revenue and decreased investment among other factors (Mugano, 2021)

- a) Explain the importance of recording economic statistics for an economy like Zimbabwe [10Marks]
- b) Discuss any five macroeconomic objectives that the government of Zimbabwe wants to achieve [15Marks]

QUESTION FOUR

Vhoroma (2019) reported that the Chief of RBZ, Doctor John Mangudya had plans to re-introduce a lender of last resort facility. This facility helps institutions that are experiencing financial difficulty or are considered highly risky or near collapse.

- a) Examine the functions of a central bank in Zimbabwe. Give examples [15Marks]
- b) Briefly explain the motives of holding money [10Marks]

0/15 (AM)

END